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Political Legitimization without Morality?

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Political Norms, Markets and Social Capital

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1 Introduction: Democratic Interests and Democratic Virtues

The viability of a democratic political order depends at least on two preconditions: (i) the citizens must recognise the fundamental principles of the political constitution of this order as being in their common interest; (ii) the fundamental principles of the political constitution must be secured by an intrinsic commitment of the citizens. These two conditions are not identical and their fulfilment is not necessarily linked with each other. Whereas it is plausible that an intrinsic commitment to the principles of a democratic order can only evolve when the political constitution is in the interest of the citizens, a political constitution which is in the interest of the citizens will not automatically be supported by an intrinsic commitment to obey its principles. Citizens who are driven by purely opportunistic behaviour will disobey rules and norms if it is advantageous for them in the concrete situation, even when the general efficacy of these rules and norms is in their personal interest.

In recent years the research on the impact of social capital on the working of democracy has shed new light especially on the determinants for the fulfilment of the second precondition: the focus of this research is on the societal factors which promote an intrinsic commitment to a democratic constitution and thereby contribute to the stability of its principles and norms. This research has provided a lot of evidence that widespread social networks and well-functioning private associations in a vibrant civil society are necessary foundations for the development of essential civic virtues such as the readiness to participate actively in the democratic process and to contribute one's share to those public goods which cannot be provided by formal institutions.[1]

However, social capital theory is weak in two respects: first, the exact mechanism by which private associations promote civic engagement and democratic commitment is not yet fully understood. It is in particular unclear which forms and variants of social capital produce the desirable effects and which do not. Second,

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[1] Cf. Banfield (1958); Putnam (1993, 2000, 2001); Newton (1997); Braithwaite and Levi (eds.), (1998); Warren (ed.), (1999); Baurmann (1999, 2000a, 2002b); Fukuyama (2000b); Ostrom and Ahn (eds.), (2003).

social capital theory has not yet addressed the first and more fundamental problem that the evolvement of an intrinsic commitment to democratic political norms is hardly possible at all if the members of a society do not recognise a democratic constitution as being in their genuine interest. Instead, social capital theory takes it more or less as granted that a democratic political order is in the interest of the vast majority of the population of all modern societies. But this is not self-evident. Actual developments in the world remind us that identifying one's interest with a democratic political order is far from automatic.

In my paper I will argue that social capital theory has the potential to make progress in both dimensions. It can advance the analyses of the varieties of social capital and of the different impact of the variants for the democratic process. It can also help to answer the question as to which factors are relevant for ensuring that a democratic political order is in the common interest of the members of a society. The potential of social capital theory in regard to the second problem is connected with the fact that the shape and distribution of political interests in a population is significantly influenced by the social structure of a society. A society with deep cleavages between certain classes or groups, a society which is dominated by a powerful aristocratic or clerical elite or a society which is divided by unsolvable ideological or religious conflicts is not favourable to the emergence of a strong and unquestioning sense of common interest in a democratic constitution which guarantees pluralism und liberalism. An important part of the social structure of any society is the amount and form of social capital existing in that society. Therefore social capital is also a genuine part of the factors that are relevant for the kind of political interests which are dominant in a society as a whole as well as in its different groups and parts. On this view social capital is not only a resource by which individual and collective interests can be realized. It is also a social force that to a great extent *shapes* individual and collective interests. Social capital is not only relevant to making democracy work, but also to making democracy first of all a political order which is in the common interest of the members of a society.

In this regard it would be not very favourable if, for example, a society is characterized by a multitude of organized pressure groups which compete for political power for the sole purpose of redistributing economical wealth in their own direction, if separated ethnic or religious groups fight for political and cultural supremacy, or if functioning social networks are only available to a small elite which dominates an isolated and powerless population. If in a society dense social networks are centred solely around competing groups and exclude access to these networks for outsiders then this form of social capital will create structures in which the respective group interests will not so easily harmonize around a democratic constitution.

A democratic political order has many features which potentially can come into conflict with the interests of some or even the majority of the members of a society. But if we look especially at the principles of a liberal democracy in a modern society then one characteristic of a democratic constitution seems to be particularly significant. The rules and norms which structure the institutions in such a democracy share an important property: they incorporate the principle of political and legal equality. The citizens of a modern, pluralistic democracy despite their many

potential differences in culture, ethnicity, religion, wealth or abilities enjoy the same fundamental rights and privileges. They are all included within the set of beneficiaries of the constitutional order. It is a central feature of the political principles and norms of a liberal democracy that they are *universalistic*. They consider the interests of all citizens with equal weight and they are applied to all members of a society in a non-discriminatory way.[2]

From this fundamental quality of a modern democracy it follows that an interest in the existence of such a political order must include as one element an interest in the existence of *universalistic political norms*. That a democratic political order will be in the interest of all citizens, therefore, does not only presuppose that every citizen has a personal interest in the benefits of the political and civil rights which are typical of a democratic society, but that every citizen also has a personal interest that *all the other citizens also* should enjoy the benefits of those rights. Each and every citizen must have a personal interest in universalistic political norms which do not discriminate between individuals and groups, but treat all citizens the same – despite their cultural, religious, ethnic, economic, or intellectual differences.

This demand can lead especially in a pluralistic and heterogeneous society to a considerable tension between the two preconditions of a working democracy: an intrinsic commitment to norms may be easier to produce and to maintain if there is a direct and recognizable connection of these norms to the homogenous interests of a certain group of individuals. But if a democracy demands an acceptance and commitment to norms which promote indiscriminately the interests of "all" in a pluralistic society with many heterogeneous interests then such acceptance and commitment may appear as a sacrifice one has to make for people with whom one has no direct social bond.

So if both conditions are met we may face a fragile constellation that is dependent on an equilibrium of many interrelated factors. It seems that in this bundle social capital plays a crucial role. The question whether the members of a society develop a genuine interest in a political order with *universalistic* norms is apparently largely influenced by the social relations and networks in which the individuals are embedded. Commitment to the norms and rules of a society is learned through participation in social capital. This is the lesson social capital theory teaches us. But if this learning process should include the commitment to universalistic norms and rules then we must be aware of the fact that not any variant of social capital will do the job. We must take a closer look at which kind of social capital is relevant here. This is the question I will discuss in my paper.

I will start with a short recapitulation of the arguments which speak in favour of the relevance of civic virtues und intrinsic commitment for the working of democracy (Section 2) and why the social capital of a society is a main factor in the production of such virtues and attitudes (Section 3). After this I explain that it is of central importance to distinguish between different variants of social capital (Section 4) and that the most relevant dimension for classification is the distinction between

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[2] Cf. Baurmann (1997b).

universalistic and particularistic social capital (Section 5). In the conclusion I argue on this basis for the thesis that in order for social capital to become a supportive factor for democracy it is crucial that it is embedded in a strong market-economy (Section 6).

2 Economising on Virtue or Taking Virtues Seriously?

Virtue and morality are scarce goods. It is therefore expedient to be sparing with them. This principle of "economising on virtue"[3] not only applies to the relationship between single individuals but, as the Scottish moral philosophers have taught us, should also be a guideline for the creation of social institutions. The market serves as a paradigmatic example of an arena where the participants' virtues and morals are largely dispensable, and yet where the result of their actions serves everyone's interest and, thereby, the public welfare. Institutions of this kind relieve individuals of the burden of moral duties and reduce the need for moral norms as well as for investments to enforce them.

The classical authors of the Scottish Enlightenment were optimistic that this principle could also be transferred to political norms and institutions. Even within the difficult realm of state power, it seemed possible to invent institutions through which an "invisible hand" would aggregate the general pursuit of individual interests to a common good.[4] This prospect was particularly attractive, as one could discard the – possibly futile – Platonic task of controlling the personal ambition of state rulers by instructing them in virtuousness and morality. If, instead, there were ways of shaping the institutional framework of political action so that it would be to the rulers' own advantage to take care of their subjects and the common weal, then trust in politics would become independent of trust in the character of the politicians. In this case the particularly difficult task of instigating moral norms for politicians would be superfluous.

The hope of being able to rely on the "morality" of the political institutions rather than on the morality of the politicians still plays a prominent role in modern political science and social theory and, moreover, in public opinion too. Especially the modern democratic state with its institutionalized possibility of voting politicians out of office, its protection of basic rights, and its ingenious system of the separation of powers and "checks and balances" seems to be the perfect example of a system, which by means of cleverly constructed mechanisms, prevents state rulers from misusing their power for their own private aims.

In recent years, however, the insight has grown among social theorists that the principle of "economising on virtue" has its limits and that we cannot solve all the problems of social and political order by well-designed institutions and their

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[3] Cf. Brennan (1995).

[4] Cf. Hirschman (1977).

incentives.[5] This is especially true of a democratic society. The functioning of the political norms of a democracy is, to a large extent, not only dependent on the behaviour of politicians or civil servants acting directly under the rules of state institutions, but more on the attitudes and the spontaneous behaviour of the citizens outside formal institutions. Many social scientists today believe that because of this democracy must be rooted in genuine civic virtues and commitment which cannot be traced back to rational opportunistic behaviour under some artificially created extrinsic incentives.[6] Civic virtues and commitment seem to be especially important in regard to three core-areas of the democratic process:

  I. Public deliberation.
 II. Political participation.
III. Collective decisions.

It is scarcely conceivable that a democracy can work well if all citizens would only act as purely opportunistic actors in these arenas. Public deliberation about common issues demands informed participants who are ready to invest time, energy, and good will. Deliberative processes concerning political issues will be more efficient the more the participants are motivated to argue according to general standards instead of solely promoting their individual interests. Active participation in political processes presupposes the motivation to contribute to public goods both in the context of individual action and in the context of collective action. Collective decisions in democracies must be protected against a tyranny of the majority on the one hand and, on the other hand, accepted and observed by the minority. Both demands imply commitment to the constitutional order, to political norms, and to substantive ethical principles.[7]

However, there can be no doubt that institutions and the incentives they create matter and that different institutions will produce different outcomes. Institutional rules influence the behaviour of actors inside and outside the institution – direct democracy, for example, has consequences for the behaviour of voters and politicians which differ significantly from the consequences of representative democracy. But the effects of institutional design are dependent not only on the properties of the institutions themselves. Every institution is embedded in a social environment and the overall impact of an institution is not the result of an endogenous equilibrium produced only by the incentives of the institution and the given preferences of the actors. This impact is always a result of an equilibrium which emerges from the characteristics of the institution *and* exogenous forces and conditions. So the same institutional system can have very different outcomes depending on the social

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[5] Cf. Baurmann (2000b).

[6] Cf. Putnam (1993); Fukuyama (1995); Pettit (1997); Warren (ed.), (1999); Brennan and Lomasky (1993); Brennan and Hamlin (2000); Cook (eds.), (2001); Dekker and Uslaner (eds.) (2001); Brennan and Pettit (2004).

[7] Cf. Buchanan and Congleton (1998); Baurmann (2003).

context in which it is implemented. The "rules of the game" always include more than deliberately created rules of institutions. "Design principles" for institutions are clearly relevant for institutional stability and performance – but their exact consequences are not context-independent.[8]

Emphasizing that civic virtues are important for making democracy work is therefore not tantamount to assuming that institutions and institutional design are irrelevant. To some degree the opposite is true: civic virtues do not make institutions superfluous, but can serve as a basis for making institutions even more successful. We can reach more efficient equilibria by institutional devices if we can trust in the virtues and intrinsic motivation of the actors: it becomes easier to create and change institutions, the demand for hierarchy and control in institutions decreases, the tension between formal und informal institutional processes diminishes, institutional norms and rules are more readily followed and the commitment to collective decisions under institutional rules increases.[9]

If the outlined thesis is right, the working of democracy and the viability of its political norms demands a stable equilibrium between proper institutional design and a suitable social environment in which supporting civic virtues play a central role. Institutions can bring about a lot of things – but whether they do so in a desirable way is greatly influenced by factors outside the institutions themselves. The efficiency of democratic institutions, their stability, their legitimacy and conformity to their norms and rules can only be realized if they are properly implanted in their social soil. It is true that societies can be changed and shaped with the help of institutions, but how successful this is and what kinds of institutions are necessary cannot be answered in general terms. We cannot simply replace the moral fabric of a society and its spontaneous forces by the incentives of a cleverly designed institutional framework. The working of a democracy cannot only be based on extrinsically motivated compliance with formal rules but also requires an intrinsically entrenched commitment to fundamental political norms and substantial ethical principles: we have to take virtues seriously!

3 Bowling Together: Democracy and Social Capital

The view that civic virtues are essential prerequisites of a stable political order and a good government has a long history. The same is true of a family of theories about the factors which promote the desired virtues in a society. These theories, which go back to Aristotle, were ingeniously renewed in Tocqueville's analysis of democracy in America and in our time have been put in the context of social philosophy by the communitarians.[10] In the last 10 years, however, a new and promising variant of these theories has been developed by the political scientist Robert Putnam in his

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[8] Cf. Ostrom (1990); Ostrom and Ahn (2003).

[9] Cf. Baurmann (2002a).

[10] Cf. MacIntyre (1981); Etzioni (1993).

pioneering books *Making Democracy Work* and *Bowling Alone* which initiated a large number of theoretical and empirical studies on the social and cultural fundaments of democracy.[11]

Put in a nutshell, these theories share the assumption that civic virtues are the product of a particular sort of social relationship between the members of a society. According to this assumption these relationships constitute a special area of a "civil society" whose dynamics are rooted in the aspirations and values of the citizens as private actors. As participants in this kind of private relationship people will develop capacities and dispositions which are beneficial to the society as a whole and will spill over into the public sphere.

To Aristotle this function is fulfilled by friendships which motivate individuals to behave altruistically towards each other and to jointly promote the values of their community. Tocqueville extended Aristotle's view to include all personal relationships which are part of a collective enterprise that people privately and voluntarily initiate to realize a common aim. From his observations he draws the conclusion that by taking part in such associational groups, individuals will overcome short-sighted egoism and will learn to contribute to collective goods, trust each other, and discuss and peacefully solve issues of common interest. For Tocqueville the concrete aims, sizes, and structures of associational groups are secondary. Whether they are established to build a bridge for the village, to come together to pray or to collect money for an opera they will all have beneficial influences on the behaviour and character of their members turning them into virtuous citizens who feel responsible for the common welfare.

Whereas the communitarians in some respect go back to Aristotle in emphasizing the importance of common values, uniform convictions and shared traditions in a society as a whole as the basis of civic virtues, the modern theories in the political and social sciences are more in the spirit of Tocqueville focussing as they do on the variety and diversity of associational activities. They have coined the term "social capital" to summarize the different forms of association civil society can produce through the private initiative of the citizens. The exponents of social capital theory believe that there are manifold kinds of social relationships which – although, maybe to different degrees – have the capacity to create those special bonds between their participants which promote the development of civic virtues: from the weak ties of loose social networks in neighbourhoods, from bowling and bird-watching, soccer-clubs and bible-circles to political parties, NGOs and spontaneous social movements.

Social capital theory assumes that the varieties of civil society provide the most important resources for making democracy work because only in small settings can people learn what is relevant for the society as a whole. Informed deliberation, active participation, and producing and accepting collective decisions are as important for the working of a small private association as for democracy in its entirety. Without being able to overcome the free-rider problem and act successfully as a collective,

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[11] Putnam (1993, 2000).

being fair towards minorities and feeling committed to the rules of a group, most joint enterprises would not get off the ground. So at the heart of modern social capital theory is the link between the vibrancy of different forms of associational life and a high level of civic engagement and democratic participation.

Social capital theorists name at least three social phenomena which they view as typical results of a flourishing civil society and which are assumed to be directly connected with the development and reinforcement of civic virtues:

I. Social networks of strong and weak ties.
II. Norms of reciprocity and trust.
III. Commitment to common aims.

According to this view, social networks are not only important to provide individuals with access to different kinds of valuable resources.[12] Networking also teaches the virtue of sociability and the capacity to create and maintain cooperative, friendly and sometimes even altruistic relationships. Effective norms of reciprocity and trust promote the virtue of carrying out exchange relations and of maintaining cooperation under risk and uncertainty.[13] Commitment to common aims embodies the virtue of not behaving as a free-rider but contributing to collective goods even when the individual contribution is marginal and insignificant.[14]

It is a plausible assumption that virtues like these are, in principle, also of a high value for democracy as a whole. The quality of public deliberation, political participation and collective decisions will improve if people are connected by the ties of encompassing social networks, practice mutual reciprocity, trust each other and feel an intrinsic commitment to common aims. The crucial premise of social capital theory is, however, that there is indeed a spill-over, a transfer from the context of the privately organized associational life to the society as a whole: the virtues which are learned in the context of 10 will be generalized to the context of 10 Million!

This assumption is dependent on two separate premises: the first presupposes that personal attitudes and dispositions are better learned in small groups than in (very) large groups; the second implies that what is learned and developed in small groups to the advantage of these groups and their members will keep its positive impact in the context of large groups and for the society as a whole. Whereas the first thesis seems reasonably plausible, the second needs further clarification and explanation. The exact mechanisms by which membership in associations of civil society leads to a high level of civic engagement and high quality democratic politics are not yet clearly understood. We must get more insight into which forms and elements of private associations promote the desirable transfer and which do not. Of course, there is undeniable empirical evidence that there are important differences between

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[12] Cf. Coleman (1987, 1988); Granovetter (1973, 1985).

[13] Cf. Gambetta (eds.), (1988); Misztal (1996); Fukuyama (1995); Woolcock (1998); Woolcock and Narayan (2000); Dasgupta (2000); Lahno (2002); Uslaner (2002).

[14] Cf. Baurmann (2000a, 2002b).

various forms of social capital in this respect and that not every jointly celebrated Bible or Koran study is conducive to democracy.

4 Making Democracy Worse: the Dark Side of Social Capital

Timothy McVeigh and his co-conspirators in the Oklahoma City bombing were members of a bowling league: they were not, unfortunately, "bowling alone".[15] Osama Bin Laden is not acting as an isolated mad man, but is firmly embedded in a well-functioning network of internationally acting terrorists. These extreme examples make clear that being intrinsically devoted to a common aim, developing trust relationships and overcoming free-rider problems by membership in some kind of group is not automatically desirable for people outside the group or the political order of a society. The public good for the group could be a public bad for the community. Even when we think of less dramatic possibilities than in the Oklahoma City bombing or in the case of Al Quaida: differential mobilization of the population by ethnic, racial, religious, or other ascriptive criteria can lead to very particularistic demands and will undermine, rather than support democracy.[16] A rich network of civic activities alone is no guarantee of a flourishing democracy. It can be both a source of trust and a source of distrust. Instead of promoting the recognition and realization of common goods it can produce insurmountable conflicts by shaping and organizing antagonistic interests and locking them in an inextricable equilibrium of continuous power struggle and mutual hostility. So if we want to have insight into the potentially positive relationship between democracy and social capital, we have to learn more about the special kind of social capital which is necessary here.

Putnam claims as a central result of his studies in Italy that the malfunctions of democratic institutions in Southern Italy were chiefly a consequence of a low level of social capital.[17] To generalize this correlation would be misleading. It is not the case that societies with no democracy or with a malfunctioning democracy always display a low level of social capital. The stability of autocratic and despotic regimes often has two faces: on the one side there may exist a fragmented civil society in which more or less isolated individuals live within weak social networks and must endure an underdeveloped associational life – a situation which is often the intentional outcome of a political strategy of the rulers who want to prevent the emergence of a strong civil society. But on the other side the members of the ruling oligarchy themselves may be integrated in a social and political network which guarantees a sufficient degree of mutual trust and reciprocity inside the political elite to enable the efficient realization of their collective goods. On this basis the commitment among them can be strong enough to overcome short-term opportunistic and

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[15] Cf. Levi (1996).

[16] Cf. Hardin (1995).

[17] Cf. Putnam (1993).

selfish behaviour and achieve beneficial cooperation – which does not exclude the fact that the aim of this cooperation is to suppress and exploit the rest of the society.

Instead of being supportive of democratic processes, high levels of social capital can also be a difficult obstacle in the transitional phase from traditional societies to modern democracies. Afghanistan and Albania, for example, are not societies with an especially low level of social capital. In both societies there are at least partially well-functioning social networks, relations of trust and reciprocity, and the capacity for collective action embodied in traditional structures of families, kinship, clans, and tribes – all of them embedded in a highly respected social and religious tradition which contains values and norms with a considerable degree of legitimacy. The problem for democracy here is clearly not a problem of lacking social capital – the problem is the lack of the *right kind* of social capital. Moreover the problem is worsened by the fact that the "wrong kind" of social capital not only prevents the development of civic virtues which are necessary for the democratic process. The wrong kind of social capital can also structure the society in a way that a democratic political order is not at all in the common interest of the people. Established traditional institutions can secure particularistic rights and privileges which would be removed by the universalistic norms of a democratic political order. Social capital is not only a relevant factor for the existence and distribution of civic virtues and intrinsic commitment in a society, but also for the existence and distribution of certain political interests. It both helps (and hinders) democracy working, but also helps (and hinders) democracy operating as a public good!

We have to acknowledge that social capital can have a dark, even sinister side.[18] Networks, reciprocity, trust and altruistic behaviour are good only in the right context. Indeed, some of the communities that have been able to educate their members successfully to behave unselfishly and to sacrifice their individual interests to the common cause are responsible for the largest catastrophes in the history of human mankind.

Equally, democratic suboptimality is not always combined with low levels of social capital – as is maybe the case in Southern Italy. Even there the low level of social capital in one area is not by chance connected with a high level of social capital in another area: the Mafia *is* a form of social capital, it embodies a highly efficient social network, creates strong norms of trust and reciprocity, and very successfully overcomes collective action problems of all sorts.[19]

However, it is not necessary to refer to the Mafia to prove that well-developed forms of social capital could make democracy worse instead of making it work. Nepotism, corruption, rent-seeking, partisanship, or free-riding are all forms of behaviour which are detrimental and destructive to democracy. *And* they are all forms of behaviour which are, as a rule, more successful if carried out in a group as a collective enterprise than as an individual effort.[20] Therefore we find that empirically

[18] Cf. Hardin (1995, 1999); Levi (1996); Portes and Landolt (1996); Adler and Kwon (2000).

[19] Cf. Gambetta (1993).

[20] Cf. Baurmann (2005).

all manner of social capital is built around those activities – ranging from loose networks which bring a few people together for a short period of time, to small associations with horizontal relations between members connected by trust and reciprocity, up to large organisations with formal rules and a strict hierarchy. The more developed and the more efficient those forms of social capital are, the worse for the outsiders and for democracy as a whole.

The dark side of social capital is not always connected with obviously condemnable behaviour like trying to free-ride, bribe, or seek rents at public expense. Negative externalities where social capital is used to facilitate collusion among a group can also be generated when particularistic demands are put forward which cannot always be judged as morally wrong at the outset. Mobilization of people to realize their religious visions or to promote the interests of their race or ethnicity can be rooted in moral convictions and personal virtues and can create social capital in a paradigmatic form. Groups and associations like these will often embody dense social networks, high levels of personal trust, altruistically driven reciprocity and generosity, and a strong intrinsic motivation to make sacrifices for the common good.

These forms of social capital will, nevertheless, more often subvert rather than strengthen democracy. The reason for this is obvious: associations like these are not "bridging" and "outward-orientated",[21] but centred around people of the same kind or origin and promoting goods which are exclusively valuable to the members of the group. The more successful these associations are the less their members will have the incentive to cooperate and bargain with other groups on a common basis, but will see the chance to enforce their particularistic interests at the expense of other. Thus social capital in this variant erects barriers of mistrust between people instead of uniting them and contributes to aims and goods which can very easily conflict with the aims and goods of the society as a whole. Associational groups of this kind will trigger a vicious circle because they undermine shared interests in a society and thereby create incentives for other groups – who, by themselves, would have no genuine reason to develop in this way – also to concentrate exclusively on *their* members and *their* particularistic interests.

Even if an association and the activity of its members have no negative effects on the surrounding society, it is not easy to answer the question under which conditions they will have *positive* effects. The assumption that membership in one kind of group leads to overcoming free-rider problems in another is not self-evident. The causal chain between bird-watching and political activism is not very close. There is a wide gap between various kinds of social clubs and organizations for political action. A number of comparative studies on social capital of recent years suggest indeed that the kind of social capital that is possibly typical of an "individualistic" society – informal activities and "events" which are restricted to single issues and

[21] Cf. Putnam and Goss (2001).

do not demand a lasting commitment – may hardly produce any positive spill-over into other areas of civic or political engagement.[22]

To make the theory of social capital more precise regarding this crucial point, it is necessary to identify the characteristics of the associational groups that are valuable to society and democracy as a whole.[23] Three modifications to our previous list seem to be important in this respect. To contribute to a commitment to the political norms of a democratic order and to promote the overall democratic process social capital should:

1. create *bridging* social networks;
2. establish norms of *generalized* reciprocity and *generalized* trust;
3. promote commitment to *public* goods.

Social capital can have a dark side because, contrary to these demands, it can embody networks which are not bridges between different kinds of people bringing them together to promote joint interests, but are tools of separation erecting borders and barriers, and providing an exclusive resource to a special group. Instead of encouraging reciprocal and trustworthy behaviour beyond the confines of a group or association, social capital can contribute to a restriction of reciprocity and trust and lead to an increase of opportunism and distrust outside the respective groups. Social capital can lack positive spill-over effects because it only promotes commitment to the "club" good of a group rather than to the public good of the surrounding society as a whole.[24]

5 Mafia and Mazda: Particularism and Universalism

Social capital is always embodied in social relationships which do not encompass a society as a whole – at least in societies with a large number of members. This was already true for the Aristotelian polis: not every citizen of Athens could be a friend of everyone else. The circle of friends is always limited. Therefore Aristotle's idea that friendship was important for the community of Athens already presupposes that people are formed in their behaviour and character by their intimate personal relations in a way that is also beneficial for people with whom they are not befriended. The same point is central to Tocqueville's theory: associational life in America could foster democracy because in small settings people learn social skills and adopt virtues which are also of central importance to their behaviour as citizens of the "big" country as a whole. Equally the communitarians or the social capital theorists must rely essentially on the thesis that members of communities or associations are shaped in their behaviour in a way that is advantageous beyond the group of which they are members. So if social capital be deemed useful for society

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[22] Cf. Putnam (ed.) (2001).

[23] Cf. Stolle and Rochon (1998); Curtis et al. (2001); Warren (2001); Paxton (2002).

[24] Cf. Stolle (1998).

or democracy as a whole, the crucial question is not only how networks, reciprocity, trust or commitment might develop, but how *bridging* networks, *generalized* reciprocity and trust, and commitment to genuine *public* issues can be developed and maintained.

We can summarize the crucial differences by referring to the alternative between *particularism* and *universalism*. A group is all the more particularistic, the more its networks, its norms of reciprocity and trust and its aims are confined to the members of the group, whereas a group is all the more universalistic, the more its networks, its norms of reciprocity and trust and its aims transgress the confines of the group and encompass other citizens and groups in a society.[25] The different qualities of the respective forms of social capital can be illustrated by two paradigmatic examples which represent extremes on the continuum between particularism and universalism: the *Mafia* and the international company *Mazda*.

The *Mafia* creates two sorts of social networks: one is strictly confined to the members of the group and is carefully isolated from outsiders. As a rule, it is important that the members of the in-group share essential personal traits and already belong to a common social framework: the same family, kinship, clan or village ("Corleone"). The Mafia tries to utilize the already existing "strong" ties between them as building blocks for the Mafia-network. The very function of this network is to offer social capital only to the members of the "family" and to form a constant threat to outsiders. This kind of network does not connect different sorts of people in a mutually beneficial way, but is rather an instrument to divide people and to produce benefits for one group at the expense of the other.

The same holds true for the second sort of social network which is created by the Mafia: this network is designed to guarantee a reliable contact to external allies, helpers and victims of the Mafia. Although this network transgresses the confines of the organization, it does not help to create social bonds or reciprocal exchange between insiders and outsiders. It is also only a tool of suppression and extortion and thus does not help to create but to destroy forms of a spontaneously emerging civil society. Moreover, the Mafia has a manifest interest to undermine all kinds of social networks in its environment which are not controlled by its own forces.

Norms of reciprocity and trust play a key role in the fabric of the Mafia. Its "code of honour" is legendary and compels the members of the Mafia to adhere to a strictly enforced normative order. It is no contradiction in this respect that reciprocity and trust inside the Mafia can become very fragile. But the main thing here is the fact that, like the Mafia-created networks, the Mafia-engendered reciprocity and trust and their potential to promote benevolent social relations are also strictly confined to the Mafia-members and designed to exclude outsiders. That is, of course, a trivial consequence of the fact that the Mafia acts illegally and secretly and that its aim is not to cooperate fairly with other people but to use its power to exploit and suppress them. Therefore its internal reciprocity and trust are not only beneficial to the Mafia itself but also hinder reciprocal relations outside the Mafia thereby producing

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[25] Cf. Baurmann (1997b); Baurmann and Lahno (2002).

massive mistrust in the social environment. This process likewise creates an artificial demand for trust which, in turn, is perversely traded by the Mafia, thus reinforcing the problem by means of a vicious circle.

Last but not least is the common good for the Mafia a public bad for the society. Insofar as the Mafia successfully promotes personal virtues and commitment to overcome collective goods problems, these dispositions are not beneficial to public goods in general. The virtue of a Mafia member must be a strictly biased virtue which is solely orientated towards the particularistic good of the Mafia. Benevolence towards the Mafia and its members must be combined with hostility towards people and potential victims outside the Mafia. It is conceivable that the Mafia could restrain opportunistic behaviour among its members to a certain extent and in this respect actually produce "real" virtues based on genuine intrinsic motivation. This however would not be an advantage for the society. The more effective the Mafia is in producing particularistically orientated virtues and commitment, the more effective it will be as a collective and the more harmful to all others.

It should be clear that an established Mafia-organization not only promotes virtues and commitment of a kind which are not desirable for a democracy. If the Mafia is powerful enough to serve the interests of its members successfully the Mafiosi will not belong to the group of people who naturally develop a special interest in the universalistic principles of a democratic order. Universalistic principles of peaceful cooperation and equal rights are not in the interest of individuals who belong to a powerful collective that realizes its aims and aspirations by force and fraud.

Now let's look at the other side of the continuum. *Mazda*, as a worldwide operating company, also creates two sorts of social networks: one is the firm-internal network which embodies special ties between the members of the company. But unlike Mafia membership, Mazda membership is not restricted to people who already belong to a common social framework and possess identical personal traits of kinship, origin, or culture. In contrast, Mazda exemplifies social capital with a high degree of "bridging" qualities. That means that members of the Mazda-"family" include people from different social backgrounds, nations, ethnicities, and races uniting many of them for the first time. The company-network of Mazda is highly inclusive and serves as a device to overcome manifold differences between people in order to create a mutually beneficial cooperative relationship.

The same applies to the second sort of social network which is established by Mazda. This network serves to facilitate a reliable contact to business partners, consumers, competitors, public administrators, or politicians. This network transcends the confines of the company and must encompass all sorts of people in a myriad of social contexts. Because the network is used to build cooperative relationships, it fosters social bonds and beneficial exchange between the participants. By its weak ties it creates a kind of skeleton on which the flesh of a civil society can grow – far beyond the borders of the company itself.

Norms of reciprocity and trust are as fundamental to a company like Mazda as they are to the Mafia. But there is an essential difference: the norms of reciprocal and trustworthy behaviour in a company cannot be particularistic in the sense that

they only include people of a narrowly defined nature. Mazda as an internationally operating company is dependent on its capacity to employ a wide range of people, whether they are of different nationalities, cultures, races or social classes. It is of vital importance to Mazda that its chances to employ persons despite their social or cultural diversity will be enhanced and protected by their inclusion in the norms of reciprocity and trust. The same applies to persons outside the company, who as consumers or business partners, are relevant to the company's ends. In regard to them too, Mazda is interested in reciprocal and trust-based cooperative relationships. Under these conditions, when looking for suitable employees, a company like Mazda has good reasons not to look for people who practice their virtues only with respect to a particular group of persons, but for people who are disposed to behaving reciprocally and in a trustworthy manner generally – and therefore Mazda also has good reasons to promote norms of reciprocity and trust with universal scope.

The common good for the Mafia is a public bad for society and vice versa. Mafia-style personal virtues and commitment are therefore not desirable for the community as a whole. The common good for Mazda is not simply identical with the common good for society either. But the common good for Mazda is not dependent on creating a public bad for the rest of society – as in the case of Mafia. Producing public goods for society as a whole is not threatening for Mazda. On the contrary, in regard to many genuine public goods – secure property rights, political stability, sound politics, rule of law, efficient public administration – companies like Mazda belong to the group of direct beneficiaries of these goods. Thus Mazda does not have incentives to promote intrinsic motivation and commitment to overcome collective action problems solely in regard to company-specific goods. Of course, a specific loyalty to the aims of the firm will be demanded. But this kind of loyalty is not necessarily combined with disloyalty to the common welfare and is not discarded by others who themselves show a special loyalty to some other groups or associations. There is no reason for a company like Mazda to promote a strictly particularistic commitment to the interests of the firm alone. As the case of the Mafia makes clear, such particularistic commitments have their own risks for the beneficiaries because they can be easily shifted from one sub-group to the other.

If this analysis is accurate then companies like Mazda incorporate social capital which promote virtues and commitment of a kind which are desirable for a democracy and support the stability of its political order. Mazda-like social capital also shapes the political interests of its members in a way that is fundamental for the existence of a durable democracy: the members of a successfully operating firm will realize their aims and aspirations by exchanges and transactions in the market-place and not by force of arms or political power. Therefore, in contrast to the members of the Mafia, the members of Mazda *will* belong to the group of people who naturally develop a genuine interest in the universalistic principles of a modern democratic order and the rule of law. These principles guarantee peaceful cooperation and equal rights as necessary preconditions for an efficient and expanding market.

The examples of Mafia and Mazda illustrate by means of extreme cases the mechanisms by which social capital may produce detrimental or beneficial spill-over effects on the surrounding society depending on its place on the continuum from

particularism to universalism. The more particularist associational groups are in regard to their networks, norms, and commitment, the less they will contribute to social relations and personal dispositions serving the whole society. Particularist variants of social capital tend to be dangerous for the rest of the society and undermine political stability and democracy. The more universalistic social capital is, on the other hand, the more it will produce networks, norms and virtues that will not only serve the purposes of its direct beneficiaries, but also shape and promote a general interest in democratic political order.[26]

6 Bowling, Bombing and Booming: Why Markets Matter

The vast majority of social capital theorists hesitate to consider market relations and firms as variants of social capital relevant to the vitality of the democratic process. This seems to be a serious shortcoming as it is obvious that networks, norms of reciprocity and trust, and commitment to common aims play an essential role in the functioning of market exchanges and for the personal relations in firms. It is not true that reciprocity, trust and commitment in economic relations are just parasitic on the production of these virtues in other social areas. Closer inspection reveals that the relations of people in economic transactions embody endogenous forces to produce reciprocity, trust and commitment. This is true both of market exchanges as such and for relations inside commercial organizations. Indeed, the idea that the kind of highly universalistic social capital of special relevance to society is predominantly produced in economic contexts has much force.[27]

On the other hand, the general neglect of "economic" social capital by the social capital theorists needs to be taken seriously. They make clear that social capital in the non-commercial civil society can not be entirely replaced by social capital in the economic realm. Mazda is not enough. The bird-watchers are still indispensable. There are a couple of aspects which are relevant here. Firstly, firms are not usually created by their employees to realize their personal aims, but by an entrepreneur. Secondly, the professional and social relations in a firm are not egalitarian, but more or less hierarchical. Thirdly, the aim of a company is not to produce a public good, but to make profit in the marketplace.

These three typical features of firm-related social capital are assumed to limit its positive side effects for society as a whole. The fact that the employees of a firm act as agents on behalf of a principal at best creates a kind of indirect loyalty to the aims of the firm. Such loyalty is mediated by a contractual relation and triggers virtues like honesty, reliability, or a sense of duty. What is missing is the special virtue which is embodied in the commitment to a self-chosen aim and a self-organized association to realize this aim. Additionally, acting in hierarchical

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[26] Cf. Baurmann (1997b, 2000a, 2002b).

[27] Cf. Baurmann (1997a, b, 2002b).

structures does not create mutuality and equality of participation and so weakens reciprocal exchange and the possibilities of developing trust relations. It is assumed that relationships within vertical networks of hierarchy and dependence are not able to create experiences of reciprocity and trust to the same extent as relationships in horizontal networks which bring together agents of equivalent status and power.[28] Last but not least the production of public goods is not the aim of firms and companies. This means that commitment to common aims is primarily restricted to the "club" goods of the firm. The virtue to contribute to a genuine public good and the even more demanding virtue to contribute voluntarily and out of altruistic concern for the individual goods for others who are in need – the virtue of "solidarity" – plays no significant role in this context.

So what seems to be true in regard to these arguments is that the democratic process can indeed gain considerably if social capital is developed (also) in the context of a civil society where self-governance and self-organization is independent of commercial motives and where people are sometimes ready to provide voluntarily individual or public goods for others and where they create reciprocity and trust in egalitarian relationships. It is plausible that these qualities cannot so easily be produced in the marketplace and in commercial business. As bird-watchers we do not realize our aims in competition with others and are not dependent on the good will of an authority. By watching birds with others we do as we like and do not perform tasks which are defined by someone else.

It is no less important that civil society be embedded in a flourishing market economy. Universalism is learned, valued, and enforced by the expansion of economic exchanges. Only if civil society is embedded in markets can it be prevented from collapsing into particularism und isolationism. Bowling without booming may lead to bombing.

A market economy creates a unique environment for the associational groups of civil society. In a society with a vibrant market economy people are not restricted to stable, strictly limited communities and to relationships based on personal ties. Social groups are flexible and "osmotic", their membership fluctuates, the boundaries and composition of groups are constantly shifting. Instead of continuity and stagnation, there is private, social, political, economic and geographic mobility. A modern market society engenders non-local, supra-regional cooperative interests. With the expansion of market relations and a well-developed division of labour, group confines become permeable. Social groups and communities are no longer isolated from their environment, their members are not bound to each other by unbreakable ties. The lack of static social ties leads to a relatively frequent change of partners in cooperative ventures. In such an "unbound" society, one cannot rely on temporarily existing barriers and boundaries.

Often, market-societies with a great number of members, with prosaic and impersonal relations between people, with frequent fluctuation between social groups and communities, are seen as destructive powers undermining and dissolving once intact

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[28] Cf. Putnam (2000); Offe and Fuchs (2001).

communities and personal relationships. But societies of this sort also give rise to the phenomenon that people, who at first have little in common, can come into contact and establish relations. They encourage cooperation and association regardless of racial, national, social, or cultural differences. Only when this is the case will people who adopt social norms of unlimited universal scope become valuable for their fellow-men. The anonymity, dynamism, and mobility of an open market-society mean that the reasons which speak in favour of enacting universalistic norms acquire maximal importance. The destruction of traditional structures and relationships in modern market societies is therefore highly congenial to the establishment of the kind of interests and virtues that are necessary for making democracy work.

When searching for a suitable partner for a cooperative enterprise in such an anonymous, mobile, changing society will one not look for persons who are moral and trustworthy only in relation with their particular circle of people, but for persons who in general have a moral attitude: persons, that is, who take a moral point of view, in the sense of being impersonal and impartial towards the interests of others. Thus, the kind of associational life characteristic of mobile and dynamic societies also produces a demand for a special kind of people as suitable partners. The required qualification is no longer unconditional loyalty to a certain class of people, but a general adherence to the norms of reciprocity and trust.

Therefore the development of a market-society contributes to a universalistic orientation and thereby to a kind of social capital which is beneficial to society as a whole and especially the democratic process. In the first place, as it develops an open society with inclusive cooperative structures, transcending natural and artificial borders and demarcations of all kinds, it enhances the chances of "bridging" social capital that promotes and enforces norms of reciprocity and trust beyond the confines of some well-defined groups and shapes interests in favour of a universalistic democratic order. Second, commercial enterprises in a market society themselves create a kind of social capital which is an important source of open networks and universalistic norms of generalized reciprocity and general trust. In this way the market-embeddedness of the civil society is an important foundation for the development of "civic" social capital which overcomes the dangers of particularism and group-selfishness. On the other hand, without the genuine "civil" social capital created mainly outside the market-place the important resources of solidarity, altruistic engagement and autonomy by self-government and self-organization would dry up.

The overall result is: we need social capital to shape the kind of political interests and to produce the kind of civic virtues which together make democracy work. But to enhance the chances to get the right form of social capital, civil society should be embedded in a well established market-economy. There is not only one direction of influence here. What is needed is a virtuous equilibrium between markets, politics *and* civil society.

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